

SNAP ON INC
Form 10-Q
October 24, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)
x

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **September 29, 2007**

OR

o

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-7724

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

2801 80th Street, Kenosha, Wisconsin
(Address of principal executive offices)

39-0622040
(I.R.S. Employer Identification No.)

53143
(Zip code)

(262) 656-5200
(Registrant's telephone number, including area
code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding at October 19, 2007
Common Stock, \$1.00 par value	57,612,420 shares

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SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	Sept. 29, 2007	Sept. 30, 2006	Sept. 29, 2007	Sept. 30, 2006
Net sales	\$ 680.7	\$ 594.7	\$ 2,098.3	\$ 1,803.7
Cost of goods sold	(379.8)	(336.1)	(1,165.1)	(1,006.6)
Gross profit	300.9	258.6	933.2	797.1
Financial services revenue	15.8	11.3	44.0	34.2
Financial services expenses	(10.2)	(8.3)	(29.6)	(26.2)
Operating income from financial services	5.6	3.0	14.4	8.0
Operating expenses:				
Selling, general and administrative	(234.1)	(216.0)	(719.1)	(662.9)
Litigation settlement				(38.0)
Total operating expenses	(234.1)	(216.0)	(719.1)	(700.9)
Operating earnings	72.4	45.6	228.5	104.2
Interest expense	(11.6)	(4.5)	(34.6)	(13.6)
Other income (expense) net	1.9	1.3	4.6	0.4
Earnings from continuing operations	62.7	42.4	198.5	91.0
Income tax expense	(21.6)	(14.8)	(66.6)	(30.4)
Net earnings from continuing operations	41.1	27.6	131.9	60.6
Discontinued operations, net of tax		0.6	(8.0)	1.5
Net earnings	\$ 41.1	\$ 28.2	\$ 123.9	\$ 62.1
Basic earnings per common share:				
Earnings per share, continuing operations	\$ 0.71	\$ 0.47	\$ 2.28	\$ 1.04
Earnings (loss) per share, discontinued operations		0.01	(0.14)	0.03
Net earnings per share	\$ 0.71	\$ 0.48	\$ 2.14	\$ 1.07
Diluted earnings per common share:				
Earnings per share, continuing operations	\$ 0.70	\$ 0.47	\$ 2.25	\$ 1.02
Earnings (loss) per share, discontinued operations		0.01	(0.14)	0.03
Net earnings per share	\$ 0.70	\$ 0.48	\$ 2.11	\$ 1.05
Weighted-average shares outstanding:				
Basic	57.7	58.2	58.0	58.2
Effect of dilutive options	0.7	0.6	0.7	0.9
Diluted	58.4	58.8	58.7	59.1
Dividends declared per common share	\$ 0.27	\$ 0.27	\$ 0.81	\$ 0.81

See notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	Sept. 29, 2007	Dec. 30, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 92.6	\$ 63.4
Accounts receivable net of allowances	566.9	559.2
Inventories	330.6	323.0
Deferred income tax benefits	72.9	76.0
Prepaid expenses and other assets	87.6	91.6
Total current assets	1,150.6	1,113.2
Property and equipment		
Land	24.0	24.3
Buildings and improvements	226.4	236.7
Machinery and equipment	551.4	540.9
	801.8	801.9
Accumulated depreciation and amortization	(500.9)	(504.8)
Property and equipment net	300.9	297.1
Deferred income tax benefits	59.6	55.3
Goodwill	824.6	776.1
Other intangibles net	215.8	257.8
Pension assets	15.0	14.0
Other assets	159.4	141.0
Total assets	\$ 2,725.9	\$ 2,654.5

See notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share data)

(Unaudited)

	Sept. 29, 2007	Dec. 30, 2006
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 169.1	\$ 178.8
Notes payable and current maturities of long-term debt	26.5	43.6
Accrued benefits	39.4	41.4
Accrued compensation	85.1	90.4
Franchisee deposits	47.3	48.5
Deferred subscription revenue	25.9	25.3
Income taxes	28.8	37.8
Other accrued liabilities	210.3	216.2
Total current liabilities	632.4	682.0
Long-term debt	501.6	505.6
Deferred income taxes	83.0	88.9
Retiree health care benefits	67.1	69.6
Pension liabilities	125.1	113.9
Other long-term liabilities	124.1	118.2
Total liabilities	1,533.3	1,578.2
Shareholders' equity		
Preferred stock (authorized 15,000,000 shares of \$1 par value; none outstanding)		
Common stock (authorized 250,000,000 shares of \$1 par value; issued 67,102,729 and 67,081,801 shares)	67.1	67.1
Additional paid-in capital	134.4	121.9
Retained earnings	1,256.8	1,180.3
Accumulated other comprehensive income (loss)	91.2	21.2
Grantor Stock Trust at fair market value (zero and 407,485 shares)		(19.4)
Treasury stock at cost (9,534,012 and 8,503,482 shares)	(356.9)	(294.8)
Total shareholders' equity	1,192.6	1,076.3
Total liabilities and shareholders' equity	\$ 2,725.9	\$ 2,654.5

See notes to Condensed Consolidated Financial Statements

SNAP-ON INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Nine Months Ended	
	Sept. 29, 2007	Sept. 30, 2006
Operating activities:		
Net earnings	\$ 123.9	\$ 62.1
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	37.3	35.4
Amortization of other intangibles	13.0	1.6
Stock-based compensation expense	14.2	11.7
Excess tax benefits from stock-based compensation	(5.8)	(8.8)
Deferred income tax benefit		(18.1)
Gain on sale of assets	(2.4)	(0.3)
Loss (gain) on mark to market for cash flow hedges	0.1	(0.2)
Changes in operating assets and liabilities, net of effects of acquisition:		
(Increase) decrease in receivables	14.9	(1.3)
(Increase) decrease in inventories	5.8	(19.2)
(Increase) decrease in prepaid and other assets	0.1	(5.4)
Increase (decrease) in accounts payable	(16.1)	28.8
Increase (decrease) in accruals and other liabilities	(8.1)	64.6
Net cash provided by operating activities	176.9	150.9
Investing activities:		
Capital expenditures	(43.2)	(31.5)
Acquisition of business	(5.1)	
Proceeds from disposal of property and equipment	13.9	11.2
Other	(0.9)	
Net cash used in investing activities	(35.3)	(20.3)
Financing activities:		
Proceeds from issuance of long-term debt	298.5	
Net decrease in short-term borrowings	(323.3)	(8.4)
Purchase of treasury stock	(85.8)	(83.5)
Proceeds from stock purchase and option plans	38.1	74.3
Excess tax benefits from stock-based compensation	5.8	8.8
Cash dividends paid	(47.4)	(47.7)
Other	(0.6)	
Net cash used in financing activities	(114.7)	(56.5)
Effect of exchange rate changes on cash and cash equivalents	2.3	1.5
Increase in cash and cash equivalents	29.2	75.6
Cash and cash equivalents at beginning of year	63.4	170.4
Cash and cash equivalents at end of period	\$ 92.6	\$ 246.0
Supplemental cash flow disclosures:		
Cash paid for interest	\$ (21.3)	\$ (15.0)
Net cash paid for income taxes	(33.8)	(35.7)

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Condensed Consolidated Financial Statements

These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Snap-on Incorporated's (Snap-on or the company) 2006 Annual Report on Form 10-K for the fiscal year ended December 30, 2006.

The condensed consolidated financial statements include the accounts of Snap-on, its majority-owned subsidiaries and Snap-on Credit LLC (SOC), a 50%-owned joint venture with The CIT Group, Inc. (CIT). The condensed consolidated financial statements do not include the accounts of the company's independent franchisees. All intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified on the Condensed Consolidated Statements of Cash Flows to conform to the current year presentation, and the Condensed Consolidated Statements of Earnings have been restated to reflect the company's June 29, 2007, sale of its Sun Electric Systems (SES) business as Discontinued Operations. See Note 17 for information on the sale of SES.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the statement of financial condition and results of operations for the three and nine month periods ended September 29, 2007, and September 30, 2006, have been made. The interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year.

2. New Accounting Standards

Effective December 30, 2006, the last day of the 2006 fiscal year, Snap-on adopted the recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Postretirement Plans: an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS No. 158 requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, and also requires an employer to initially apply the requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position for fiscal years ending after December 15, 2008. As the company uses the last day of its fiscal year end as the measurement date for its plans, the adoption of the measurement provisions of SFAS No. 158 will not have a material impact on the company's consolidated financial position and results of operations. Retrospective application of the recognition and fiscal year-end measurement date provisions of SFAS No. 158 is not permitted. See Notes 11 and 12 for information on pension and postretirement plans.

Effective December 31, 2006, the first day of fiscal 2007, Snap-on adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes: an Interpretation of FASB Statement No. 109*. See Note 8 for information on income taxes.

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Effective December 31, 2006, Snap-on adopted SFAS No. 156, *Accounting for Servicing of Financial Assets*, to simplify accounting for separately recognized servicing assets and servicing liabilities. The adoption of SFAS No. 156 did not have a material impact on the company's consolidated financial position and results of operations.

The FASB released SFAS No. 157, *Fair Value Measurements*, to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles, and expand disclosures about fair value measurements. SFAS No. 157 will be effective for Snap-on as of December 30, 2007, the beginning of the company's fiscal-2008 year. The company is currently evaluating the impact of adopting SFAS No. 157.

The FASB released SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 allows companies to choose to elect, at specified dates, to measure eligible financial instruments at fair value. Companies shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for companies that have also elected to apply the provisions of SFAS No. 157, *Fair Value Measurements*. Companies are prohibited from retrospectively applying SFAS No. 159 unless they choose to early adopt both SFAS No. 157 and SFAS No. 159. SFAS No. 159 also applies to eligible items existing at November 15, 2007 (or early adoption date). Snap-on is currently evaluating the impact of adopting SFAS No. 159.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. EITF 06-11 specifies how companies should recognize the income tax benefit received on dividends that are (i) paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options; and (ii) charged to retained earnings under SFAS No. 123 (R), *Share-Based Payment*. EITF 06-11 is effective for Snap-on beginning in fiscal 2008. The company does not believe the adoption of EITF 06-11 will have a material impact on the company's consolidated financial statements.

3. Acquisitions

On November 28, 2006, Snap-on acquired the ProQuest Business Solutions business and certain net assets (collectively, Snap-on Business Solutions or Business Solutions, and formerly ProQuest Business Solutions) from ProQuest Company for an initial purchase price of \$516 million of cash and the assumption of approximately \$19 million of debt. Subsequent to the November 28, 2006, closing date, the purchase price for Business Solutions increased by \$5.1 million to \$521.1 million, primarily reflecting a higher level of working capital received by Snap-on at closing. The preliminary purchase price allocations are based upon the preliminary estimated fair values of the assets and liabilities acquired, and are subject to change upon the finalization of various income tax and contingent liability matters prior to the expiration of the purchase accounting allocation period in the fourth quarter of 2007.

4. Accounts Receivable

Accounts receivable include trade accounts, installment and other receivables, including the current portion of franchisee-financing receivables. The components of Snap-on's current accounts receivable were as follows:

<i>(Amounts in millions)</i>	September 29, 2007	December 30, 2006
Trade accounts receivable	\$ 485.4	\$ 477.6
Installment receivables, net of unearned finance charges of \$8.1 million and \$7.3 million	69.7	62.4
Other accounts receivable	46.7	52.1
Total	601.8	592.1

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Allowance for doubtful accounts		(34.9)	(32.9)
Total accounts receivable net	\$	566.9	\$ 559.2

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

The long-term portion of accounts receivable is classified in "Other assets" on the accompanying Condensed Consolidated Balance Sheets and is comprised of installment and other receivables, including franchisee-financing receivables, with payment terms that are due beyond one year. The components of Snap-on's long-term accounts receivable were as follows:

<i>(Amounts in millions)</i>	September 29, 2007	December 30, 2006
Installment receivables, net of unearned finance charges of \$9.8 million and \$9.2 million	\$ 45.7	\$ 42.6
Other long-term accounts receivable	30.8	28.3
Total	\$ 76.5	\$ 70.9

5. Inventories

Inventories by major classification were as follows:

<i>(Amounts in millions)</i>	September 29, 2007	December 30, 2006
Finished goods	\$ 312.2	\$ 310.4
Work in progress	37.1	35.2
Raw materials	64.3	64.1
Total FIFO value	413.6	409.7
Excess of current cost over LIFO cost	(83.0)	(86.7)
Total inventories	\$ 330.6	\$ 323.0

Inventories accounted for using the first-in, first-out (FIFO) method as of September 29, 2007, and December 30, 2006, approximated 65% and 62% of total inventories. The company accounts for its non-U.S. inventory on the FIFO method. As of September 29, 2007, approximately 31% of the company's U.S. inventory was accounted for using the FIFO method and 69% was accounted for using the last-in, first-out (LIFO) method. LIFO inventory liquidations resulted in a reduction of "Cost of goods sold" on the accompanying Condensed Consolidated Statements of Earnings of \$0.4 million for the three month period ended September 30, 2006, and \$0.2 million and \$1.8 million for the nine month periods ended September 29, 2007 and September 30, 2006. There was no LIFO inventory liquidation in the three month period ended September 29, 2007.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

6. Acquired Intangible Assets

As of December 30, 2006, the \$192.9 million preliminary purchase price allocation for the intangible assets acquired from the Business Solutions acquisition consisted of \$164.6 million in customer-relationship intangible assets with a 16 year weighted-average life and \$28.3 million of developed technology with a five year weighted-average life. As a result of the resolution of certain open items in the third quarter of 2007, Snap-on reduced the initial preliminary purchase price allocation for the intangible assets acquired by \$32.8 million to \$160.1 million. As of September 29, 2007, and based on exchange rates in effect at the date of the acquisition, the intangible assets acquired consist of \$139.4 million of customer-relationship intangible assets and \$20.7 million of developed technology. Snap-on is amortizing the \$139.4 million of customer-relationship intangible assets on an accelerated basis over a 16 year weighted-average life and is amortizing the \$20.7 million of developed technology on a straight-line basis over a five year weighted-average life.

Disclosures related to other intangible assets are as follows:

<i>(Amounts in millions)</i>	September 29, 2007		December 30, 2006	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Amortized other intangible assets:				
Customer relationships	\$ 140.8	\$ (8.5)	\$ 164.6	\$ (0.9)
Developed technology	21.2	(4.1)	28.3	(0.4)
Patents	33.7	(17.5)	32.5	(15.8)
Trademarks	2.1	(0.5)	2.8	(0.9)
Other	0.7	(0.5)	0.7	(0.3)
Total	198.5	(31.1)	228.9	(18.3)
Non-amortized trademarks	48.4		47.2	
Total	\$ 246.9	\$ (31.1)	\$ 276.1	\$ (18.3)

The weighted-average amortization periods related to other intangible assets are as follows:

<i>(In years)</i>	Weighted-average Amortization
Customer relationships	16
Developed technology	5
Patents	16
Trademarks	38
Other	2

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The weighted-average amortization period for all amortizable intangibles on a combined basis is 16 years.

Amortization expense was \$4.3 million and \$13.0 million for the three and nine month periods ended September 29, 2007, and \$0.8 million and \$1.6 million for the three and nine month periods ended September 30, 2006. Based on current levels of amortizable intangible assets, estimated annual amortization expense is expected to be \$17.5 million in 2007, \$16.6 million in 2008, \$16.3 million in 2009, \$16.1 million in 2010, \$15.9 million in 2011, and \$15.6 million in 2012.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Goodwill was \$824.6 million and \$776.1 million at September 29, 2007, and December 30, 2006. The increase in goodwill from December 31, 2006, primarily resulted from purchase accounting adjustments related to the Business Solutions acquisition and \$22.7 million of currency translation. See Note 3 for additional information on the company's acquisition of Business Solutions.

7. Exit or Disposal Activities

Snap-on recorded costs associated with exit and disposal activities of \$1.8 million and \$16.5 million for the three and nine month periods ended September 29, 2007, and \$4.3 million and \$15.2 million for the three and nine month periods ended September 30, 2006.

(Amounts in millions)	Three Months Ended		Nine Months Ended	
	Sept. 29, 2007	Sept. 30, 2006	Sept. 29, 2007	Sept. 30, 2006
Exit and disposal costs:				
Cost of goods sold	\$ 1.8	\$ 2.2	\$ 13.1	\$ 5.9
Operating expenses			2.1	9.2
Financial services expenses				0.1
Total exit and disposal costs	\$ 1.8	\$ 4.3	\$ 16.5	\$ 15.2

Of the \$1.8 million and \$16.5 million of costs incurred during the three and nine month periods ended September 29, 2007, \$0.2 million and \$6.4 million qualified for accrual treatment. Costs associated with exit and disposal activities in 2007 primarily related to headcount reductions from (i) the transfer of certain production activities from Sweden to lower-cost regions and emerging markets; (ii) the third quarter 2007 closure of the Johnson City, Tennessee, hand tool facility; (iii) the consolidation of multiple customer call centers in the United States; and (iv) various management realignment actions at other Snap-on facilities.

Snap-on's exit and disposal accrual activity for 2007 was as follows:

(Amounts in millions)	Balance at	Six Month Activity		Balance at	Third Quarter		Balance at
	December 30, 2006	Additions	Usage	June 30, 2007	Additions (Reversals)	Usage	September 29, 2007
Severance costs:							
Snap-on Tools	\$ 2.3	\$ 1.7	\$ (1.4)	\$ 2.6	\$ (0.6)	\$ (1.1)	\$ 0.9
Commercial & Industrial	2.4	3.0	(3.4)	2.0	0.2	(0.8)	1.4
Diagnostics & Information	0.3	0.9	(0.8)	0.4	0.6	(0.2)	0.8
Corporate	0.3	0.5	(0.6)	0.2		(0.2)	
Facility-related costs:							

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Snap-on Tools	0.2		(0.1)	0.1	0.1
Diagnostics & Information	0.3	0.1		0.4	0.4
Corporate	0.2			0.2	0.2
Total	\$ 6.0	\$ 6.2	\$ (6.3)	\$ 5.9	\$ 0.2
					\$ (2.3)
					3.8

Exit and disposal accrual usage of \$2.3 million and \$8.6 million during the three and nine month periods ended September 29, 2007, consisted primarily of severance and facility-related payments. Since year-end 2006, Snap-on has reduced headcount by approximately 238 employees as part of its restructuring actions. While the majority of the exit

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

and disposal accrual will be utilized in 2007, certain facility-related costs will extend beyond 2007 primarily due to longer-term lease obligations.

Snap-on expects to fund the remaining cash requirements of its exit and disposal activities with cash flows from operations and borrowings under the company's existing credit facilities. The estimated costs for the exit and disposal activities were based on management's judgment under prevailing circumstances.

8. Income Taxes

The company adopted FIN No. 48, *Accounting for Uncertainty in Income Taxes*, on December 31, 2006, the beginning of the company's 2007 fiscal year. As of December 31, 2006, the company had unrecognized tax benefits of \$23.5 million. Snap-on did not record any cumulative effect adjustment to retained earnings as a result of adopting FIN No. 48.

Of the \$23.5 million of unrecognized tax benefits, \$21.0 million would impact the effective income tax rate if recognized. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. As of December 31, 2006, the company had \$2.2 million of accrued interest included in the \$23.5 million of unrecognized tax benefits.

Snap-on believes it is reasonably possible that, within the next 12 months, \$0.4 million of previously unrecognized tax benefits will be recorded as a result of the resolution of various tax positions.

With few exceptions, Snap-on is no longer subject to U.S. federal and state/local income tax examinations by tax authorities for years prior to 2003, and Snap-on is no longer subject to non-U.S. income tax examinations by tax authorities for years prior to 1998.

Snap-on's effective tax rate on income from continuing operations was 34.5% in both the third quarters of 2007 and 2006. Snap-on's effective tax rate on income from continuing operations was 33.6% for the first nine months of 2007, as compared with 33.4% in the prior year. The company's nine month effective tax rate in 2007 was favorably impacted by the resolution of previously unrecognized tax benefits in certain non-U.S. tax jurisdictions. For 2006, the lower nine month effective tax rate reflects both the mix of U.S. and non-U.S. earnings and the impact of a \$38.0 million pretax litigation settlement charge recorded in the second quarter of 2006, which was tax effected at the higher U.S. tax rate. Snap-on expects that its effective tax rate for the remainder of 2007 will approximate 34.5%, as the company does not believe any additional material adjustments will be made related to unrecognized tax benefits for the remainder of the year. See Note 16 for information on the

litigation settlement charge.

9. Short-term and Long-term Debt

Notes payable and long-term debt as of September 29, 2007, was \$528.1 million; no commercial paper was outstanding at September 29, 2007. As of December 30, 2006, notes payable and long-term debt was \$549.2 million, including \$314.9 million of commercial paper. On January 12, 2007, Snap-on sold \$300 million in floating and fixed rate notes consisting of \$150 million of floating rate notes that mature in their entirety on January 12, 2010, and \$150 million of fixed rate notes that mature in their entirety on January 15, 2017. Interest on the floating rate notes accrue at a floating rate equal to the three-month London Interbank offer rate plus 0.13% per year; interest is payable quarterly. Interest on the fixed rate notes accrues at a rate of 5.50% per year; interest is payable semi-annually. Snap-on used the proceeds from the sale of the notes, net of \$1.5 million of transaction costs, to repay commercial paper obligations issued to finance the acquisition of Business Solutions. On January 12, 2007, the company also terminated the \$250 million bridge credit agreement that Snap-on established prior to its acquisition of Business Solutions.

Long-term debt of \$501.6 million as of September 29, 2007, includes \$200 million of unsecured 6.25% notes, \$150 million of unsecured 5.50% notes, \$150 million of unsecured floating rate notes, and \$1.6 million of other long-term

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

debt. Current maturities of long-term debt and notes payable to banks under uncommitted lines of credit were \$16.5 million at September 29, 2007, and \$28.6 million at December 30, 2006. CIT and Snap-on have agreed to lend funds to support SOC's working capital requirements on a 50/50 basis. As of September 29, 2007, and December 30, 2006, SOC owed both Snap-on and CIT \$4.6 million and \$0.1 million each pursuant to this agreement.

On August 10, 2007, Snap-on entered into a five-year, \$500 million multi-currency revolving credit facility that terminates on August 10, 2012. This \$500 million facility replaces Snap-on's previous \$400 million multi-currency revolving credit facility that was set to terminate on July 27, 2009. The \$500 million revolving credit facility's financial covenant requires that Snap-on maintain, as of each fiscal quarter end, a ratio of total debt to the sum of total debt plus shareholders' equity of not greater than 0.60 to 1.00 or a ratio of total debt to earnings before interest, taxes, depreciation and amortization (EBITDA), for the preceding four fiscal quarters then ended, of not greater than 3.50 to 1.00. As of September 29, 2007, Snap-on was in compliance with all covenants of this revolving credit facility.

As of September 29, 2007, Snap-on also had \$14.5 million of unused available debt capacity under its committed bank lines of credit. The committed bank lines of credit consist of two \$10 million lines of credit that expire on July 29, 2008, and August 31, 2008. As of September 29, 2007, Snap-on had approximately \$514.5 million of unused available debt capacity under the terms of its revolving credit facility and its committed bank lines of credit.

10. Financial Instruments

Snap-on uses derivative instruments to manage well-defined interest rate and foreign currency exposures. Snap-on does not use derivative instruments for speculative or trading purposes. The criteria used to determine if hedge accounting treatment is appropriate are (i) the designation of the hedge to an underlying exposure; (ii) whether or not overall risk is being reduced; and (iii) if there is a correlation between the value of the derivative instrument and the underlying obligation. On the date a derivative contract is entered into, Snap-on designates the derivative as a fair value hedge, a cash flow hedge, a hedge of a net investment in a foreign operation, or a natural hedging instrument whose change in fair value is recognized as an economic hedge against changes in the values of the hedged item.

Foreign Currency Derivative Instruments: Snap-on has operations in a number of countries that have transactions outside their functional currencies and, as a result, is exposed to changes in foreign currency exchange rates. Snap-on also has intercompany loans to foreign subsidiaries denominated in foreign currencies. Snap-on manages most of these exposures on a consolidated basis, which allows for netting of certain exposures to take advantage of natural offsets. Forward exchange contracts are used to hedge the net exposures. Gains or losses on net foreign currency hedges are intended to offset losses or gains on the underlying net exposures in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates.

At September 29, 2007, Snap-on had \$132.9 million of net foreign exchange forward buy contracts outstanding comprised of buy contracts of \$55.3 million in Swedish kronor, \$24.2 million in euros, \$22.8 million in British pounds, \$19.7 million in Australian dollars, \$6.3 million in

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Canadian dollars, \$3.4 million in Singapore dollars and \$5.2 million in other currencies, and sell contracts of \$2.3 million in Hungarian forint and \$1.7 million in other currencies. At December 30, 2006, Snap-on had \$80.1 million of net foreign exchange forward buy contracts outstanding comprised of buy contracts of \$31.4 million in Swedish kronor, \$23.1 million in euros, \$17.8 million in British pounds, \$10.9 million in Australian dollars, \$2.3 million in Japanese yen, \$2.1 million in Norwegian kroner, and \$3.4 million in other currencies, and sell contracts of \$7.0 million in Canadian dollars and \$3.9 million in other currencies.

The majority of Snap-on's forward exchange contracts are not designated as hedges under SFAS No. 133. The fair value changes of these contracts are reported in earnings as foreign exchange gain or loss, which is included in Other income (expense) net on the accompanying Condensed Consolidated Statements of Earnings.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Interest Rate Swap Agreements: Snap-on enters into interest rate swap agreements to manage interest costs and risks associated with changing interest rates. Interest rate swap agreements are accounted for as either cash flow hedges or fair value hedges. The differentials paid or received on interest rate swap agreements are recognized as adjustments to interest expense. For fair value hedges, the effective portion of the change in fair value of the derivative is recorded in Long-term debt on the accompanying Condensed Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to Interest Expense on the accompanying Condensed Consolidated Statements of Earnings. For cash flow hedges, the effective portion of the change in fair value of the derivative is recorded in Accumulated other comprehensive income (loss), on the accompanying Condensed Consolidated Balance Sheets, while any ineffective portion is recorded as an adjustment to interest expense. The notional amount of interest rate swaps outstanding and designated as fair value hedges was \$50 million at September 29, 2007, and at December 30, 2006.

Changes in the fair value of derivative financial instruments qualifying for hedge accounting are reflected as derivative assets or liabilities with the corresponding gains or losses reflected in earnings in the period of change. An offsetting gain or loss is also reflected in earnings based upon the changes of the fair value of the debt instrument being hedged. For all fair value hedges qualifying for hedge accounting, the net accumulated derivative loss at September 29, 2007, was \$1.2 million. At September 29, 2007, the maximum maturity date of any fair value hedge was four years. During the third quarter of 2007, cash flow hedge and fair value hedge ineffectiveness was not material.

11. Pension Plans

Snap-on's net pension expense included the following components:

(Amounts in millions)	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Service cost	\$ 5.4	\$ 5.7	\$ 16.1	\$ 17.1
Interest cost	12.3	11.8	37.0	35.3
Expected return on assets	(16.1)	(15.3)	(48.2)	(45.7)
Actuarial loss	1.8	2.9	5.3	8.7
Prior service cost	0.3	0.3	0.9	0.9
Net transition asset	(0.1)		(0.2)	(0.1)
Net pension expense	\$ 3.6	\$ 5.4	\$ 10.9	\$ 16.2

Snap-on expects to make contributions to its foreign pension plans throughout 2007 of approximately \$13.0 million. Snap-on is not required to make a contribution to its domestic pension plans in 2007. Depending on market and other conditions, Snap-on may elect to make discretionary cash contributions to its domestic pension plans.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

12. Retiree Health Care

Snap-on's net postretirement health care benefits expense included the following components:

<i>(Amounts in millions)</i>	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Service cost	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.4
Interest cost	1.1	1.1	3.2	3.2
Unrecognized net gain	(0.3)	(0.3)	(0.8)	(0.9)
Prior service credit	(0.1)	(0.1)	(0.3)	(0.3)
Net postretirement expense	\$ 0.8	\$ 0.8	\$ 2.4	\$ 2.4

13. Stock-Based Compensation

The 2001 Incentive Stock and Awards Plan, as Amended (2001 Plan), which was approved by shareholders in 2001 and amended and approved by shareholders in 2006, provides for the grant of stock options, performance share awards and restricted stock awards. As of September 29, 2007, the 2001 Plan had 3,424,519 shares available for future grants.

Snap-on recognized \$4.9 million and \$14.2 million of compensation cost for the three and nine month periods ended September 29, 2007, and \$4.8 million and \$11.7 million for the three and nine month periods ended September 30, 2006. Cash received from option exercises during the three and nine month periods ended September 29, 2007, totaled \$2.7 million and \$38.1 million. Cash received from option exercises during the three and nine month periods ended September 30, 2006, totaled \$28.3 million and \$74.3 million. The tax benefit realized from the exercise of share-based payment arrangements was \$0.5 million and \$6.8 million for the three and nine month periods ended September 29, 2007, and \$2.9 million and \$9.2 million for the three and nine month periods ended September 30, 2006.

Stock Options

Stock options are granted with an exercise price equal to the market value of a share of common stock on the date of grant and have a contractual term of ten years. Grants made prior to 2007 vest in two annual increments beginning on the first anniversary following the grant date of the award. Beginning in 2007, all stock option grants vest over a three-year period, beginning on the first anniversary following the grant date of the award, with the exception of the 2007 grant to the company's Chief Executive Officer, which vests in its entirety within one year of

grant.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model. The company uses historical data regarding stock option exercise behaviors for different participating groups to estimate the expected term of options granted (based on the period of time that options granted are expected to be outstanding). Expected volatility is based on the historical volatility of the company's stock for the length of time corresponding to the expected term of the option. The expected dividend yield is based on the company's historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield on the grant date for the expected term of the option. The following weighted-average assumptions were used in calculating the fair value of stock options granted during the nine month periods ended September 29, 2007, and September 30, 2006, using the Black-Scholes valuation model. No stock options were granted in the three month periods ended September 29, 2007, and September 30, 2006.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

	Nine Months Ended	
	September 29, 2007	September 30, 2006
Expected term of option (<i>in years</i>)	6.31	7.20
Expected volatility factor	25.75%	29.19%
Expected dividend yield	3.05%	3.23%
Risk-free interest rate	4.68%	4.59%

A summary of stock option activity as of and for the nine month period ended September 29, 2007, is presented below:

	Shares (<i>in millions</i>)	Exercise Price Per Share (*)	Remaining Contractual Term (*) (<i>in years</i>)	Aggregate Intrinsic Value (<i>in millions</i>)
Outstanding at December 30, 2006	2.8	\$ 33.39		
Granted	0.7	50.40		
Exercised	(1.0)	33.39		
Forfeited or expired	(0.1)	44.90		
Outstanding at September 29, 2007	2.4	37.86	6.93	\$ 28.4
Exercisable at September 29, 2007	1.5	32.32	5.67	26.1

* Weighted-average

The weighted-average grant-date fair value of options granted during the nine month periods ended September 29, 2007, and September 30, 2006, was \$12.17 and \$10.57. The intrinsic value of options exercised during the nine month periods ended September 29, 2007, and September 30, 2006, was \$18.6 million and \$23.8 million. The fair value of stock options vested during the nine month periods ended September 29, 2007, and September 30, 2006, was \$4.2 million and \$3.8 million.

As of September 29, 2007, there was \$6.1 million of unrecognized compensation cost related to non-vested stock option compensation arrangements granted under the 2001 Plan. That cost is expected to be recognized as a charge to earnings over a weighted-average period of 1.9 years.

Performance Awards

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Performance awards granted in 2007 under the 2001 Plan are earned and expensed using the fair value of the performance award, determined by using the Black-Scholes valuation model, over a contractual term of three years based on the company's performance. Vesting of the performance awards will be dependent upon performance relative to pre-defined goals for revenue growth and return on assets for the years 2007 through 2009. Based on Snap-on's performance relative to these goals, the recipient can earn up to 100% of the performance awards. For performance achieved above a certain level, the recipient may earn additional cash units, not to exceed 50% of the number of performance awards initially awarded. Each additional cash unit also represents the right to receive cash of \$50.22, which was the fair market value of a share of common stock on the date of grant.

Performance awards granted in 2006 are earned and expensed using the fair value of the performance award, determined by using the Black-Scholes valuation model, over a contractual term of three years based on the company's performance. Vesting of the performance awards will be dependent upon performance relative to pre-defined goals for revenue growth and return on assets for the years 2006 through 2008. Based on Snap-on's performance relative to these goals, the recipient can earn up to 100% of the performance awards. For performance achieved above a certain level, the recipient may earn

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

additional cash units, not to exceed 50% of the number of performance awards initially awarded. Each additional cash unit also represents the right to receive cash of \$39.35, which was the fair market value of a share of common stock on the date of grant.

Performance awards granted in 2005 are earned and expensed using the fair value of the performance award, determined by using the Black-Scholes valuation model over a contractual term of three years based on the company's performance. Vesting of the performance awards will be dependent upon performance relative to pre-defined goals for revenue growth and return on assets for the years 2005 through 2007. Based on Snap-on's performance relative to these goals, the recipient can earn up to 100% of the performance awards with an equal number of cash units that represent the right to receive cash of \$31.73 per unit. For performance achieved above a certain level, the recipient may earn additional cash units, not to exceed 100% of the number of performance awards initially awarded. Each additional cash unit also represents the right to receive cash of \$31.73, which was the fair market value of a share of common stock on the date of grant.

The fair value of each performance award is estimated on the date of grant using the Black-Scholes valuation model. The company uses the vesting period of the performance awards as the expected term of the awards granted. Expected volatility is based on the historical volatility of the company's stock for the length of time corresponding to the expected term of the performance award. The risk-free interest rate is based on the U.S. treasury yield on the grant date for the length of time corresponding to the expected term of the performance award. The following weighted-average assumptions were used in calculating the fair value of performance awards granted during the nine month periods ended September 29, 2007, and September 30, 2006, using the Black-Scholes valuation model. No performance awards were granted in the three month periods ended September 29, 2007, and September 30, 2006.

	Nine Months Ended	
	September 29, 2007	September 30, 2006
Expected term of performance award (<i>in years</i>)	3.0	3.0
Expected volatility factor	20.52%	20.54%
Risk-free interest rate	4.73%	4.67%

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The weighted-average grant-date fair value of performance awards granted during the nine month periods ended September 29, 2007, and September 30, 2006, was \$50.22 and \$35.74. As performance share awards generally vest only at the end of the performance-award period, no shares vested or were paid out during the three and nine month periods ended September 29, 2007, and the three month period ended September 30, 2006. During the first quarter of 2006, 0.1 million shares were paid out for the vesting of performance awards granted in 2004.

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A summary of the status of the company's non-vested performance share awards as of September 29, 2007, and changes during the nine month period ended September 29, 2007, are as follows:

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	Shares <i>(in millions)</i>		Grant-Date Fair Value (*)
Non-vested performance awards at December 30, 2006	0.4	\$	33.52
Granted	0.1		50.22
Vested			
Forfeited or expired	(0.1)		39.15
Non-vested performance awards at September 29, 2007	0.4		42.20

(*) Weighted-average

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

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As of September 29, 2007, there was \$11.8 million of unrecognized compensation cost related to non-vested performance share awards granted. That cost is expected to be recognized as a charge to earnings over a weighted-average period of 1.8 years.

Stock Appreciation Rights (SARs)

The company also issues SARs to certain key non-U.S. employees. SARs are granted with an exercise price equal to the market value of a share of Snap-on's common stock on the date of grant and have a contractual term of ten years and, for SARs granted prior to 2007, vest in two annual increments beginning on the first anniversary following the grant date of the award. SARs granted in 2007 vest over a three-year period beginning on the first anniversary following the grant date of the award. SARs provide for the cash payment of the excess of the fair market value of Snap-on's common stock price on the date of exercise over the grant price. SARs have no effect on dilutive shares or shares outstanding as any appreciation of Snap-on's common stock value over the grant price is paid in cash and not in common stock.

The fair value of SARs is remeasured each reporting period using the Black-Scholes valuation model. The company uses historical data regarding SARs exercise behaviors for different participating groups to estimate the expected term of the SARs granted based on the period of time that similar instruments granted are expected to be outstanding. Expected volatility is based on the historical volatility of the company's stock for the length of time corresponding to the expected term of the SARs. The expected dividend yield is based on the company's historical dividend payments. The risk-free interest rate is based on the U.S. treasury yield in effect on the grant date for the length of time corresponding to the expected term of the SARs. The following weighted-average assumptions were used in calculating the fair value of SARs granted during the nine month periods ended September 29, 2007, and September 30, 2006, using the Black-Scholes valuation model. No SARs were granted in the three month periods ended September 29, 2007, and September 30, 2006.

	Nine Months Ended	
	September 29, 2007	September 30, 2006
Expected term of SARs (<i>in years</i>)	5.55	6.57
Expected volatility factor	25.37%	27.43%
Expected dividend yield	3.05%	3.21%
Risk-free interest rate	4.23%	4.59%

The total intrinsic value of SARs exercised during the three and nine month periods ended September 29, 2007, was \$0.1 million and \$1.6 million, and \$0.2 million and \$1.6 million during the three and nine month periods ended September 30, 2006. The total fair value of SARs vested during the nine month period ended September 29, 2007, and September 30, 2006, was \$1.5 million and \$0.9 million. No SARs vested during the three month periods ended September 29, 2007, and September 30, 2006.

A summary of the status of the company's non-vested SARs as of September 29, 2007, and changes during 2007, are as follows:

	Shares		Fair Value (*)
	(<i>in millions</i>)		
Non-vested SARs at December 30, 2006	0.1	\$	13.85
Granted	0.1		10.66
Vested			
Forfeited or expired			
Non-vested SARs at September 29, 2007	0.2		11.43

(*) Weighted-average

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

As of September 29, 2007, there was \$1.2 million of unrecognized compensation cost related to non-vested SARs. That cost is expected to be recognized as a charge to earnings over a weighted-average period of 1.9 years.

Restricted Stock Awards

The company granted 17,868 shares of restricted stock to members of the board of directors during the nine months ended September 29, 2007. All restrictions will lapse upon the recipient's retirement from the Board, death or a change in control.

14. Earnings Per Share

The shares used in the computation of the company's basic and diluted earnings per common share are as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Weighted-average common shares outstanding	57,682,515	58,184,570	58,002,351	58,197,865
Dilutive effect of stock-based instruments	710,157	596,071	728,811	879,213
Weighted-average common shares outstanding, assuming dilution	58,392,672	58,780,641	58,731,162	59,077,078

The dilutive effect of the potential exercise of outstanding stock-based instruments to purchase common shares is calculated using the treasury stock method. Options to purchase 641,165 shares and 445,043 shares of Snap-on common stock for the three and nine month periods ended September 29, 2007, and options to purchase 23,000 shares of Snap-on common stock for both the three and nine month periods ended September 30, 2006, were not included in the computations of diluted earnings per share as the exercise price of the options was greater than the average market price of the common stock for the respective periods and the effect on earnings per share would be anti-dilutive.

15. Comprehensive Income

Total comprehensive income for the three and nine month periods ended September 29, 2007, and September 30, 2006, was as follows:

	Three Months Ended	Nine Months Ended
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(Amounts in millions)

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	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Net earnings	\$ 41.1	\$ 28.2	\$ 123.9	\$ 62.1
Foreign currency translation	44.3	10.4	69.9	48.5
Minimum pension liability		(0.3)		(0.3)
Change in fair value of derivative instruments, net of tax		0.2	0.1	
Total comprehensive income	\$ 85.4	\$ 38.5	\$ 193.9	\$ 110.3

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

16. Commitments and Contingencies

Snap-on provides product warranties for specific product lines and accrues for estimated future warranty cost in the period in which the sale is recorded. Snap-on calculates its reserve requirements based on historic warranty loss experience that is periodically adjusted for recent actual experience. The following summarizes Snap-on's product warranty accrual activity for the three and nine month periods ended September 29, 2007, and September 30, 2006:

<i>(Amounts in millions)</i>	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Warranty reserve:				
Beginning of period	\$ 19.0	\$ 18.7	\$ 17.3	\$ 16.8
Additions	4.5	3.1	13.8	12.3
Usage	(3.1)	(4.2)	(10.7)	(11.5)
End of period	\$ 20.4	\$ 17.6	\$ 20.4	\$ 17.6

Snap-on has credit risk exposure for certain SOC-originated contracts for franchisee van loans with recourse provisions to Snap-on. At September 29, 2007, and December 30, 2006, \$16.0 million and \$16.2 million of loans, with terms ranging from eighteen months to ten years, have a primary recourse provision to Snap-on if the loans become more than 90 days past due. The asset value of the collateral underlying these recourse loans would serve to mitigate Snap-on's loss in the event of default. The estimated fair value of the guarantees for franchisee van loans with recourse as of September 29, 2007, was not material.

On May 16, 2006, Snap-on reached an agreement to settle certain legal matters related to certain then current and former franchisees on a class basis. The court gave its final approval to the class settlement on October 27, 2006. Under the terms of the settlement, Snap-on agreed to make payments to claimants and class counsel, plus incur certain other costs and expenses. Snap-on recorded a \$38.0 million pretax charge in the second quarter of 2006 representing its best estimate to settle these legal matters. The majority of the settlement funds, including payments to the class participants made in the first quarter of 2007, have been disbursed. Snap-on has not admitted any wrongdoing by way of this settlement.

Snap-on is also involved in various other legal matters that are being litigated and/or settled in the ordinary course of business. Although it is not possible to predict the outcome of these other legal matters, management believes that the results will not have a material impact on Snap-on's consolidated financial position or results of operations.

17. Discontinued Operations

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On June 29, 2007, Snap-on sold its Sun Electric Systems (SES) business based in the Netherlands to DUINMAAIJER B.V., a limited liability company represented by an employee of SES, for a nominal cash purchase price. SES 's primary business is the research, development and manufacture of test equipment in Europe for aircraft hydraulics. Snap-on divested of SES as it deemed SES to be non-core to Snap-on 's ongoing business strategies. The anticipated future capital and other resources necessary to be expended in connection with the SES business were not consistent with Snap-on 's growth plans. Certain prior year amounts have been reclassified on the accompanying Condensed Consolidated Statements of Earnings to reflect the company 's sale of its SES business as Discontinued Operations.

The company recorded an after-tax loss of \$8.0 million, or \$0.14 per diluted share in 2007 related to the sale and results of operations of SES. For segment reporting purposes, the results of operations of SES were previously included in the Diagnostics & Information Group.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

(Amounts in millions)	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Loss on sale of SES, net of tax	\$ N/A	\$	\$ (9.2)	\$
Income from operations, net of tax	N/A	0.6	1.2	1.5
Discontinued operations, net of tax	N/A	0.6	(8.0)	1.5
Net sales	\$ N/A	\$ 4.8	\$ 9.9	\$ 13.7

18. Other Income (Expense)

Other income (expense) net consists of the following:

(Amounts in millions)	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Equity earnings in affiliates	\$ 0.6	\$	\$ 2.4	\$
Minority interest	(1.3)	(0.9)	(3.7)	(2.6)
Foreign exchange gain (loss)	0.5	0.1	(0.1)	0.1
Interest income	2.0	1.8	6.2	4.5
Other	0.1	0.3	(0.2)	(1.6)
Total other income (expense) net	\$ 1.9	\$ 1.3	\$ 4.6	\$ 0.4

19. Segments

Snap-on's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Snap-on's reportable business segments include: (i) the Snap-on Tools Group; (ii) the Commercial & Industrial Group; (iii) the Diagnostics & Information Group; and (iv) Financial Services. The Snap-on Tools Group consists of the business operations serving the worldwide franchise van channel. The Commercial & Industrial Group consists of the business operations providing tools and equipment products and equipment repair services to a broad range of industrial and commercial customers worldwide through direct, distributor and other non-franchise distribution channels. The Diagnostics & Information Group consists of the business operations providing diagnostics equipment, vehicle service information, business management systems, electronic parts catalogs, and other solutions for vehicle service to customers in the worldwide vehicle service and repair marketplace. Financial Services consists of the business operations of Snap-on Credit LLC (SOC) and Snap-on's wholly owned finance subsidiaries in those international markets where Snap-on has franchise operations.

Snap-on evaluates the performance of its operating segments based on segment revenues and operating earnings. For the Snap-on Tools, Commercial & Industrial, and Diagnostics & Information Groups, segment net sales include both external and intersegment net sales. Snap-on accounts for intersegment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. Identifiable assets by segment are those assets used in the respective reportable segment's operations. Intersegment amounts are eliminated to

arrive at consolidated financial results.

SNAP-ON INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Financial data by segment was as follows:

(Amounts in millions)	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Net sales:				
Snap-on Tools Group	\$ 262.0	\$ 243.9	\$ 834.5	\$ 763.4
Commercial & Industrial Group	327.9	287.0	981.3	874.2
Diagnostics & Information Group	152.0	126.9	481.1	366.1
Segment net sales	741.9	657.8	2,296.9	2,003.7
Intersegment eliminations	(61.2)	(63.1)	(198.6)	(200.0)
Total net sales	\$ 680.7	\$ 594.7	\$ 2,098.3	\$ 1,803.7
Financial services revenue	15.8	11.3	44.0	34.2
Total revenues	\$ 696.5	\$ 606.0	\$ 2,142.3	\$ 1,837.9
Operating earnings:				
Snap-on Tools Group *	\$ 24.6	\$ 15.7	\$ 88.6	\$ 22.4
Commercial & Industrial Group	32.7	23.3	93.3	74.0
Diagnostics & Information Group	22.2	15.9	72.1	39.1
Financial Services	5.6	3.0	14.4	8.0
Segment operating earnings *	85.1	57.9	268.4	143.5
Corporate	(12.7)	(12.3)	(39.9)	(39.3)
Operating earnings *	\$ 72.4	\$ 45.6	\$ 228.5	\$ 104.2
Interest expense	(11.6)	(4.5)	(34.6)	(13.6)
Other income (expense) net	1.9	1.3	4.6	0.4
Earnings from continuing operations *	\$ 62.7	\$ 42.4	\$ 198.5	\$ 91.0

* Operating results for the nine month period ended September 30, 2006, includes a \$38.0 million pretax litigation settlement charge.

(Amounts in millions)	September 29, 2007	December 30, 2006
Assets:		
Snap-on Tools Group	\$ 431.6	\$ 413.4
Commercial & Industrial Group	1,083.5	1,020.9
Diagnostics & Information Group	816.4	863.5
Financial Services	167.0	156.5
Total assets from reportable segments	\$ 2,498.5	\$ 2,454.3
Corporate	269.6	233.5
Elimination of intersegment receivables	(42.2)	(33.3)
Total assets	\$ 2,725.9	\$ 2,654.5

SNAP-ON INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statement:

Statements in this document that are not historical facts, including statements (i) that include the words expects, plans, targets, estimates, believes, anticipates, or similar words that reference Snap-on Incorporated (Snap-on or the company) or its management; (ii) specifically identified as forward-looking; or (iii) describing Snap-on's or management's future outlook, plans, estimates, objectives or goals, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Snap-on cautions the reader that any forward-looking statements included in this document that are based upon assumptions and estimates were developed by management in good faith and are subject to risks, uncertainties or other factors that could cause (and in some cases have caused) actual results to differ materially from those described in any such statement. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results or regarded as a representation by the company or its management that the projected results will be achieved. For those forward-looking statements, Snap-on cautions the reader that numerous important factors, such as those listed below, as well as those factors discussed in its Annual Report on Form 10-K for the fiscal year ended December 30, 2006, which are incorporated herein by reference, could affect the company's actual results and could cause its actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, Snap-on.

These risks and uncertainties include, without limitation, uncertainties related to estimates, statements, assumptions and projections generally, and the timing and progress with which Snap-on can attain savings from cost reduction actions, including its ability to implement reductions in workforce, achieve improvements in the company's manufacturing footprint and greater efficiencies in its supply chain, and enhance machine maintenance, plant productivity and manufacturing line set-up and change-over practices, any or all of which could result in production inefficiencies, higher cost and lost revenues. These risks also include uncertainties related to Snap-on's capability to implement future strategies with respect to its existing businesses, its ability to refine its brand and franchise strategies, retain and attract franchisees, further enhance service and value to franchisees and thereby enhance their sales and profitability, introduce successful new products, successfully integrate acquisitions (including the company's November 28, 2006, acquisition of Snap-on Business Solutions), as well as its ability to withstand disruption arising from natural disasters, planned facility closures or other labor interruptions, litigation challenges and external negative factors including significant changes in the current competitive environment, inflation, interest rates and other monetary and market fluctuations; and the impact of legal proceedings, energy and raw material supply and pricing (including steel and gasoline), the amount, rate and growth of Snap-on's general and administrative expenses (e.g. health care and/or pension costs), the impacts of non-strategic business and/or product line rationalizations, and terrorist disruptions on business. Interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year. Snap-on disclaims any responsibility to update any forward-looking statement provided in this document, except as required by law.

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RESULTS OF OPERATIONS

Highlights of Snap-on's results of operations for the third quarters of fiscal 2007 and fiscal 2006 are as follows:

<i>(Amounts in millions)</i>	September 29, 2007		Three Months Ended September 30, 2006		Increase / (Decrease)	
Net sales	\$ 680.7	100.0%	\$ 594.7	100.0%	\$ 86.0	14.5%
Cost of goods sold	379.8	55.8%	336.1	56.5%	43.7	13.0%
Gross profit	300.9	44.2%	258.6	43.5%	42.3	16.4%
Financial services revenue	15.8	100.0%	11.3	100.0%	4.5	39.8%
Financial services expenses	10.2	64.6%	8.3	73.5%	1.9	22.9%
Operating income from financial services	5.6	35.4%	3.0	26.5%	2.6	86.7%
Operating expenses	234.1	34.4%	216.0	36.3%	18.1	8.4%
Operating earnings	72.4	10.4%	45.6	7.5%	26.8	58.8%
Interest expense	11.6	1.7%	4.5	0.7%	7.1	157.8%
Other (income) expense - net	(1.9)	-0.3%	(1.3)	-0.2%	0.6	46.2%
Earnings from continuing operations	62.7	9.0%	42.4	7.0%	20.3	47.9%
Income tax expense	21.6	3.1%	14.8	2.4%	6.8	45.9%
Net earnings from continuing operations	41.1	5.9%	27.6	4.6%	13.5	48.9%
Loss (income) from discontinued operations, net of tax		0.0%	(0.6)	-0.1%	(0.6)	-100.0%
Net earnings	\$ 41.1	5.9%	\$ 28.2	4.7%	\$ 12.9	45.7%

Percentage Disclosure: Cost of goods sold, Gross profit and Operating expenses percentages are calculated as a percentage of Net sales. Financial services expenses and Operating income from financial services percentages are calculated as a percentage of Financial services revenue. All other income statement line item percentages are calculated as a percentage of the sum of Net sales and Financial services revenue.

Net sales in the third quarter of 2007 increased \$86.0 million, or 14.5%, from 2006 levels, including \$19.3 million from currency translation. Sales in the Snap-on Tools Group increased \$18.1 million, or 7.4%, from 2006 levels, primarily driven by a 5.4% increase in North American franchise sales and by continued strong sales in the company's international franchise operations. Sales in the Commercial & Industrial Group increased \$40.9 million, or 14.3%, year over year, primarily due to higher industrial sales, increased sales of professional tools and equipment in Europe, and continued strong sales growth in emerging markets. In the Diagnostics & Information Group, sales increased \$25.1 million, or 19.8%, from 2006 levels, largely due to \$48.6 million of incremental sales from the November 2006 acquisition of Snap-on Business Solutions (Business Solutions) and higher year-over-year sales of diagnostics and information products. These increases in Diagnostics & Information Group sales were partially offset by lower Original Equipment Manufacturer (OEM) facilitation sales, including \$22.5 million of lower sales from the wind down of a 2006 facilitation program in Europe.

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Gross profit in the third quarter of 2007 was \$300.9 million, or 44.2% of net sales, as compared to \$258.6 million, or 43.5% of net sales, in 2006. The \$42.3 million improvement in 2007 gross profit primarily reflects benefits from the higher sales, savings from efficiency, productivity and cost reduction (Rapid Continuous Improvement or RCI) initiatives of \$7.0 million, and currency translation of \$6.9 million. These increases were partially offset by \$5.7 million of higher year-over-

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year last-in, first-out (LIFO) related inventory expenses and \$5.2 million of increased production and material costs.

Operating expenses in the third quarter of 2007 were \$234.1 million, as compared to \$216.0 million in 2006. The \$18.1 million increase includes \$16.8 million of operating expenses for Business Solutions, higher volume-related expenses as a result of the increased sales, and \$4.9 million of currency translation. These increases in operating expenses were partially offset by \$2.4 million of gains on facility sales, \$2.1 million of lower restructuring costs, and \$1.7 million of benefits from ongoing efficiency and cost reduction initiatives. As a percentage of net sales, operating expenses improved 190 basis points (100 basis points equals 1.0 percent) to 34.4% in the third quarter of 2007, as compared to 36.3% in 2006.

Interest expense of \$11.6 million in the third quarter of 2007 was up \$7.1 million from prior year, primarily due to increased debt levels to finance the Business Solutions acquisition.

Other (income) expense - net was income of \$1.9 million in the third quarter of 2007, as compared to income of \$1.3 million in 2006. Other income primarily includes interest income and the recognition of income from equity method investments, net of minority interests. See Note 18 to the Condensed Consolidated Financial Statements for further information on other (income) expense.

Snap-on's effective tax rate on income from continuing operations was 34.5% in both the third quarters of 2007 and 2006. Snap-on expects that its effective tax rate for the remainder of 2007 will approximate 34.5%, as the company does not believe any additional material adjustments will be made related to unrecognized tax benefits for the remainder of the year. See Note 8 to the Condensed Consolidated Financial Statements for information on income taxes.

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Highlights of Snap-on's results of operations for the first nine months of fiscal 2007 and fiscal 2006 are as follows:

<i>(Amounts in millions)</i>	September 29, 2007		Nine Months Ended September 30, 2006		Increase / (Decrease)	
	\$		\$		\$	
Net sales	2,098.3	100.0%	1,803.7	100.0%	294.6	16.3%
Cost of goods sold	1,165.1	55.5%	1,006.6	55.8%	158.5	15.7%
Gross profit	933.2	44.5%	797.1	44.2%	136.1	17.1%
Financial services revenue	44.0	100.0%	34.2	100.0%	9.8	28.7%
Financial services expenses	29.6	67.3%	26.2	76.6%	3.4	13.0%
Operating income from financial services	14.4	32.7%	8.0	23.4%	6.4	80.0%
Operating expenses:						
Selling, general and administrative	719.1	34.3%	662.9	36.8%	56.2	8.5%
Litigation settlement		0.0%	38.0	2.1%	(38.0)	-100.0%
Total operating expenses	719.1	34.3%	700.9	38.9%	18.2	2.6%
Operating earnings	228.5	10.7%	104.2	5.7%	124.3	119.3%
Interest expense	34.6	1.6%	13.6	0.7%	21.0	154.4%
Other (income) expense net	(4.6)	-0.2%	(0.4)	0.0%	4.2	NM
Earnings from continuing operations	198.5	9.3%	91.0	5.0%		